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Report Highlights:

In August 2007, China agreed to lift its ban on U.S. bone-in beef and bovine offal from cattle under 30 months based on its ban lifting on U.S. boneless beef from cattle under 30 months in June 2007. However, the United States did not accept the offer because it did not follow OIE guidelines supporting trade in all products and ages with a "risk-controlled" country such as the United States. Post estimates that China has lost over 10 million pigs as a result of Porcine Reproductive and Respiratory Syndrome (PRRS) in 2006 and 2007. Despite this, FAS Beijing forecasts China's pork production in 2008 to recover by 2 percent to 48 MMT. High prices for all meat should push 2008 beef production up by 3 percent to 8.1 MMT. However, increased beef and other production in 2008 may not offset decreased pork production in 2007. As a result, tight meat supplies should continue into 2008 and encourage meat imports.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Table of Contents

Executive Summary	3
Cattle and Beef	3
BSE-Related Restrictions Continue	4
Increasing Beef Production	4
Rising Beef Consumption	5
Imports Continue Growing	5
Falling Genetics & Live Cattle Imports.....	6
Cosmetics: No BSE Certificate Needed.....	6
Rising Live Cattle & Beef Exports.....	7
Cattle and Beef PS&D tables	8
Cattle and Beef Trade Matrix	10
Swine and Pork	12
Pork Production Down but to Recover	12
High Prices.....	12
The Impact of PRRS	13
Long-Term Factors & Production	13
New Policies & Production	14
High Pork Prices & Inflation	14
Recovering Pork Consumption.....	15
Rapidly Increasing Pork Imports.....	16
China Plant Delistings & Zero Tolerance	16
Rising Exports.....	17
Swine and Pork PS&D Tables.....	18
Swine and Pork Trade Matrix	20
Other Relevant Reports	21

Executive Summary

It is almost four years since China shut off U.S. beef after the first outbreak of BSE in the United States in December 2003 among dairy cattle imported from Canada. In August 2007, China proposed lifting a ban on U.S. bone-in beef and offal from cattle under 30 months of age based on a July 2006 offer to lift its ban on U.S. boneless beef. China became a member of the World Organization for Animal Health (OIE) in May 2007. Despite this, China has not followed OIE guidelines regarding beef trade and BSE. For this reason, the United States did not accept China's offer because the continued BSE-related restrictions on animal age and other products are not based on science and international standards.

FAS Beijing forecasts that China's 2008 beef production to increase steadily by three percent to 8.1 MMT because of strong domestic demand. At the same time, reduced outbreaks of foot and mouth disease will likely result in larger calf numbers in 2007 and 2008. Post estimates China's beef exports in 2008 to increase by two percent to 104,000 MT mainly to traditional markets such as Hong Kong, South Korea, and Japan.

Post forecasts China's pork production in 2008 to rise by two percent to 48 million MT. This will partially offset an estimated ten percent decrease in 2007 resulting from Porcine Reproductive and Respiratory Syndrome (PRRS), otherwise known as Blue Ear Disease. While part of this recovery is being driven by high prices, it is also a result of the Chinese government support to swine producers. Caution in the sector means that breeding swine imports in 2008 are expected to remain flat because of the fear of further PRRS outbreaks. Domestic shortages in hog and pork supplies is expected to continue into 2008 and will likely drive China's pork imports up by 15 percent to 150,000 MT in 2008 from estimated 130,000 MT in 2007. The ractopamine residue and China's zero tolerance on epidemic pathogens for raw meats continue to constrain U.S. pork exports. As of September 25, 2007, 18 U.S. establishments have been delisted -- 11 for ractopamine and 8 for pathogens. China's swine exports in 2008 are forecast to recover by three percent to 1.7 million head in line with the domestic production recovery. Traditionally, pork is the largest source of meat in the Chinese diet:

China - Total Meat Production, 2001-2006 (1,000 MT)							
	2001	2002	2003	2004	2005	2006	% Change 2006/05
Total Meat	63,339	65,865	69,329	72,448	77,431	80,514	3.98
Beef	5,488	5,846	6,305	6,759	7,115	7,500	5.41
Pork	41,845	43,266	45,186	47,016	50,106	51,972	3.72
Sheep and goat meat	2,927	3,167	3,572	3,993	4,355	4,697	7.85
Total poultry Meat	12,103	12,498	13,121	13,514	14,643	15,090	3.05
Source: National Statistics Bureau							

Note: No data included in this report is official. All official USDA data is available at <http://www.fas.usda.gov/psdonlineonline>.

Cattle and Beef

BSE-Related Restrictions Continue

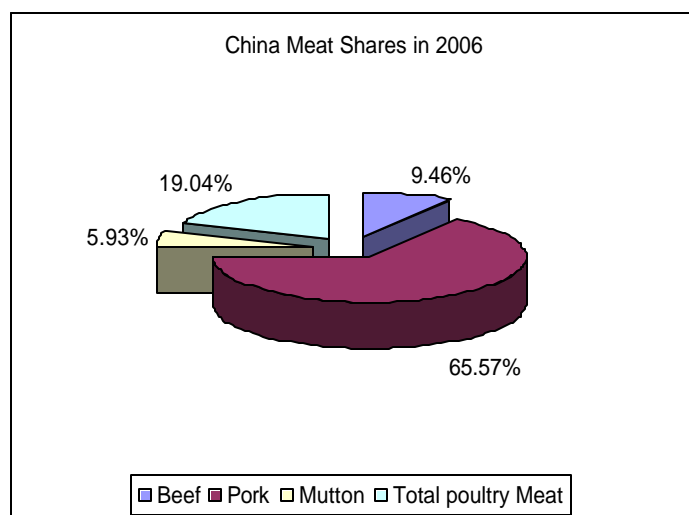
On August 12, 2007, China's General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) wrote a letter to former USDA Secretary Johanns with a new offer to resume imports of both U.S. bone-in and deboned beef originating from cattle under 30 months. This built upon a June 2006 proposal to admit U.S. boneless beef only from cattle under 30 months. Although the offer was an improvement from last year's and did include most offals (heart, liver, lung, kidney and sinew), it did not cover high value items such as the omasum (3rd bovine stomach). In addition, the Chinese proposal contained age and product limits that were not consistent with OIE regulations (see below). For these reasons, the United States did not accept China's offer.

Negotiations have continued on the beef market issue. The United States and China held talks on beef on August 8-10, 2007 in Beijing, but there was little progress because of continuing differences on products and animal age. This was the first negotiation since the OIE designated the United States as a "BSE controlled country" during its 75th General Assembly in May 2007. OIE's new guidelines state that the full range of beef and beef products are tradable regardless of the BSE status of a country -- as long as specified risk materials (SRM) appropriate to the risk category of the country are hygienically removed. Depending on the BSE category of a country ("undetermined risk", "controlled risk", and "negligible risk"), and the age of the animal, varying amounts of SRMs must be removed. U.S. processing plants have followed OIE guidelines for SRM removal and the United States has presented evidence to China that it follows other OIE guidelines such as the ruminant feed ban. However, the issue remains unresolved.

Increasing Beef Production

FAS Beijing forecasts China's beef production in 2008 to grow steadily to 8.1 MMT from estimated 7.9 MMT in 2007, a three percent increase. Local production has been supported by meat price increases caused by major outbreaks of PRRS that has reduced Chinese pork production considerably. The resulting sharp price increases have fueled demand for substitute proteins such as poultry and beef. Please see below for more information about swine production.

Strong domestic demand for beef is expected to continue in 2008 as a result of PRRS and expected increases in beef consumption resulting from the 29th Summer Olympic Games to be held in Beijing. In addition, lagging domestic production is expected to drive China's beef imports in 2008.



Beef is not traditionally China's largest source of protein. Accounting for only 10 percent of China's total meat production, the share of production has increased only about two percent over the last decade. With high prices for pork expected to continue, this slow increase in beef production and market share is expected to increase in 2008.

China's cattle sector is dominated by beef cattle (71 percent), with other sectors being much smaller. Other

bovine production includes water buffaloes (16 percent), dairy cattle (10 percent), and other bovine animals (three percent). In addition, local genetics are not well-developed. As a result, pure bred high quality beef cattle account only for about 5 percent of the total herd.

Rising Beef Consumption

China's 2008 beef consumption in 2008 will move in the same direction as cattle slaughter and beef production because 99 percent of China's total beef is consumed domestically. Although beef prices increased by seven percent on average from \$2.19 from \$2.04 per kilogram from January to August 2007, the change was much smaller compared than the average 74 percent in pork prices during the same period. Prices have risen because of increased beef demand and lagging production. However, beef price increases have been modest because many price-sensitive consumers have shifted from pork to poultry. Beef price increases have also been limited because ruminant feed is less dependent on increasingly expensive corn than other meat products. However, short-term upward pressure is expected to continue on prices with increased demand during several public and traditional holidays.

Most domestic beef is consumed by lower to middle income consumers, while imported muscle beef is consumed by high-end hotels or restaurants. Popular types of hotpots mainly use frozen beef, sheep, and goat meat. At the other end of the market, beef from grain-fed cattle with marble lines, such as from the United States, is most desired by high-end users. There is also major demand for offals such as the omasum which is widely used for hotpot and cold dishes all over China. It is especially valuable since it is the only bovine offal that can be used as a substitute for pork offal in a hotpot. Bovine tongues are often used for cold dishes. Outside these products, other bovine offals are not often used for food and have little potential market in China.

According to Chinese traders, Australia has increased exports of grain fed high quality beef to China to fill the gap left by the United States and Canada after the market was closed for BSE-related reasons in 2003. After four years of little U.S. and Canadian beef on the Chinese market, Chinese consumers are getting used to eating Australian beef. At the same time, Australians have been increasing production of grain-fed beef that competes more effectively compared to grass-fed.

Imports Continue Growing

Imports are expected to rise because increased domestic beef and poultry production may not set off reduced pork production in 2007. Tight meat supplies are expected into 2008 with strong beef demand and lagging production driving Chinese beef imports.

Post calculates Chinese beef imports by using reporting countries export statistics instead of China's customs statistics since China's imports are often under reported. As a result, post revised import numbers upward in the beef PS&D table compared to those reported in the last Livestock Semi-Annual, CH7014.

Post also believes the official numbers underestimate real trade because of unofficial imports. Traders indicate that higher domestic beef prices, border problems with official imports, and strong demand have pushed up the gray-channel trade via South China. As a result, Post estimates that the grey trade accounts for 20-30 percent of China's total beef imports.

If China lifts its ban on the full scope of U.S. beef and beef products from cattle of all ages, the potential market for U.S. beef could be about 8,000 MT via direct shipments and 6,000 MT via Hong Kong re-exports to the mainland. The potential beef offal market for U.S. shipments could be 6-8,000 MT via direct shipments and 13-14,000 MT via Hong Kong transshipments.

As a result of the BSE bans, Australia has a disproportionately large market share in China. During January-July 2007, it exported 1,792 MT via direct shipments to China accounting for 80 percent of China's total imports. Its exports via Hong Kong re-exports were 291 MT, accounting for 24 percent of Hong Kong total beef re-exports to China. If North American beef cannot enter China in 2008, Australia will remain dominant in the market.

China's customs data shows very little beef offal imports from Brazil, but Hong Kong re-export data shows that Brazil has remained the largest supplier via transshipments. China suspended beef imports from Brazil in October 2005 because of Food and Mouth Disease (FMD) in that country. Post believes some of these shipments were done through grey trade channel or traders in Hong Kong. Improper labeling or falsification of customs documents may decline if AQSIQ implements a new regulation to match weights and quantities in trade.

Falling Genetics & Live Cattle Imports

Chinese demand for frozen bovine semen and embryo imports declined for the first six months of 2007. At the same time, it has reduced live breeding cow imports. Imports of bovine semen and embryos fell by 58 and 78 percent in the first half of 2007. The United States was the only supplier (20 embryos valued at \$40,703). U.S. bovine semen exports to China during the same period decreased 86 percent from 101 kg. China only imports breeding cattle for dairy production. Live cattle imports have fallen by 93 percent from 132,446 head in 2004 to 9,790 head in July 2007. This falling interest in genetics and breeding cattle stems from low prices offered by processing plants for raw milk -- combined with high beef prices. This gives dairy farms a strong incentive to slaughter dairy cows for beef. The Government's embryo transfer subsidy program did not succeed in changing these trends while the bovine artificial insemination subsidy program initiated last year faced difficulties because it was limited to domestic bovine semen.

Cosmetics: No BSE Certificate Needed

On February 21, 2007, AQSIQ notified the World Trade Organization (WTO) that cosmetics imported from BSE countries would no longer need a BSE Cosmetics Certificate issued by exporting countries. This move is expected to promote U.S. cosmetics exports to China. The United States is the largest cosmetic supplier to China with exports during January-July 2007 increasing by 38 percent to over 2,000 MT and valued at \$39.5 million. As Chinese incomes increase, strong demand for imported cosmetics will continue rising.

Rising Live Cattle & Beef Exports

China mainly exports live beef cattle to traditional markets with Hong Kong and Macau accounting for over 92 percent of China's total exports. This pattern will continue in 2008. Export quotas to these Special Autonomous Regions are normally announced by the Ministry of Commerce (MOFCOM) at the beginning of each year. Export quotas are generally the same every year. However, actual exports to Macau in 2007 may decrease by nine percent because of higher export prices. However, increased exports to Hong Kong and the new markets such as Malaysia and Mongolia are expected to offset China's decreased exports to Macau.

This forecast is based on the expectation of marginal increase in China's cattle slaughter in 2008. China's beef export markets have seen few changes in the last four years. The top traditional markets are Hong Kong, South Korea, Japan, Jordan, and Kuwait. China's market share in Japan and South Korea may shrink after U.S. beef trade with Japan and South Korea resumes.

Cattle and Beef PS&D tables

PSD Table

Country China, Peoples
Commodity Republic of
 Animal
 Numbers,
 Cattle

(1000
 HEAD)(PERCENT)

	2006	Revised		2007	Estimate		2008	Forecast	
	USDA	Post	Post	USDA	Post	Post	USDA	Post	Post
	Official	Estimate	Estimate	Official	Estimate	Estimate	Official	Estimate	Estimate
			New			New			New
Market Year Begin		01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Total Cattle Beg. Stks	141575	141575	140435	145336	145336	139442	149470	149470	140148
Dairy Cows Beg. Stocks	12820	12820	12161	13400	13400	13632	0	0	14900
Beef Cows Beg. Stocks	68580	68580	66500	71800	71800	67500	0	0	68600
Production (Calf Crop)	60100	60100	57900	63300	63300	59700	0	0	61500
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	15	15	15	10	10	12	0	0	10
Total Imports	15	15	15	10	10	12	0	0	10
Total Supply	201690	201690	198350	208646	208646	199154	149470	149470	201658
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	54	54	54	54	54	56	0	0	58
Total Exports	54	54	54	54	54	56	0	0	58
Cow Slaughter	0	0	0	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0	0	0	0
Other Slaughter	55800	55800	56029	58772	58772	58450	0	0	60000
Total Slaughter	55800	55800	56029	58772	58772	58450	0	0	60000
Loss	500	500	2825	350	350	500	0	0	500
Ending Inventories	145336	145336	139442	149470	149470	140148	0	0	141100
Total Distribution	201690	201690	198350	208646	208646	199154	0	0	201658
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	-149470	-149470	0
Inventory Balance	3761	3761	-993	4134	4134	706	-149470	-149470	952
Inventory Change	3	3	3	0	3	-1	3	3	1
Cow Change	6	6	6	5	5	3	-100	-100	3
Production Change	5	5	5	5	5	3	-100	-100	3
Production to Cows	74	74	74	74	74	74	0	0	74
Trade Balance	39	39	39	44	44	44	0	0	48
Slaughter to Inventory	39	39	40	40	40	42	0	0	43

(Not Official USDA Data)

Country	Commodity	China, Peoples Republic of Meat, Beef and Veal								
		(1000 HEAD)			(1000 MT)			(PERCENT)		
		2006	Revised		2007	Estimate		2008	Forecast	
		USDA	Post	Post	USDA	Post	Post	USDA	Post	Post
		Official	Estimate	Estimate	Official	Estimate	Estimate	Official	Estimate	Estimate
				New			New			New
Market Year Begin			01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Slaughter (Reference)		55800	55800	56029	58772	58772	58450	0	0	60000
Beginning Stocks		0	0	0	0	0	0	0	0	0
Production		7492	7492	7492	7900	7900	7850	0	0	8065
Intra-EU Imports		0	0	0	0	0	0	0	0	0
Other Imports		2	2	9	2	2	9	0	0	10
Total Imports		2	2	9	2	2	9	0	0	10
Total Supply		7494	7494	7501	7902	7902	7859	0	0	8075
Intra EU Exports		0	0	0	0	0	0	0	0	0
Other Exports		99	99	99	102	102	102	0	0	104
Total Exports		99	99	99	102	102	102	0	0	104
Human Dom. Consumption		7395	7395	7402	7800	7800	7757	0	0	7971
Other Use, Losses		0	0	0	0	0	0	0	0	0
Total Dom. Consumption		7395	7395	7402	7800	7800	7757	0	0	7971
Ending Stocks		0	0	0	0	0	0	0	0	0
Total Distribution		7494	7494	7501	7902	7902	7859	0	0	8075
CY Imp. from U.S.		0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.		0	0	0	0	0	0	0	0	0
Balance		0	0	0	0	0	0	0	0	0
Inventory Balance		0	0	0	0	0	0	0	0	0
Weights		134	134	134	134	134	134	0	0	134
Production Change		5	5	5	5	5	5	-100	-100	3
Import Change		0	0	0	0	0	0	-100	-100	11
Export Change		9	9	9	3	3	3	-100	-100	2
Trade Balance		97	97	90	100	100	93	0	0	94
Consumption Change		5	5	5	5	5	5	-100	-100	3

(Not Official USDA Data)

Cattle and Beef Trade Matrix

China Live Cattle Imports, 2005-2007 (Number of Head)					
	Jan-Dec	Jan-Dec	Jan-Jul		Jan-Jul
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2005	2006	2006	2007	2007/06
World	49,586	15,072	12,605	9,790	-22.33
Australia	35,517	12,265	9,803	9,390	-4.21
New Zealand	14,069	2,802	2802	400	-85.72
United States	0	0	0	0	0.00
Canada	0	0	0	0	0.00
Other	0	5	0	0	0.00
HS Code: 010210, 010290					
Source: GTA China Statistics					

China Beef and Veal Imports By Reporting Countries Export Statistics, 2005-2007 (Metric Tons)					
Reporting Country	Jan-Dec	Jan-Dec	Jan-July		Jan-Jul
	Quantity	Quantity	Quantity Comparison		% Change
Reporting Total	2005	2006	2006	2007	2007/06
World	6,470	6,828	3,539	3,554	0.42
Australia	2,092	1,809	1,217	1,792	47.25
Hong Kong	732	114	96	1,272	1225.00
New Zealand	267	356	182	279	53.30
United States	66	47	17	154	805.88
Brazil	107	69	14	33	135.71
Canada	0	0	0	0	0.00
India	2,175	4,186	1,911	0	-100.00
Other	1,031	247	102	24	-76.47
HS Code: 020110, 020120, 020130, 020210, 020220, 020230, 021020 160250					
Source: GTA Reporting Countries Export Statistics					

China Live Cattle Exports, 2005-2007 (Number of Head)					
	Jan-Dec	Jan-Dec	Jan-Jul		Jan-Jul
	Quantity	Quantity	Quantity Comparison		% Change
Destination	2005	2006	2006	2007	2007/06
World	54,129	54,389	30,049	32,913	9.53
Hong Kong	48,003	45,957	26,519	26,988	1.77
Macau	5,746	5,898	3,480	3,318	-4.66
Malaysia	0	0	0	1,813	0.00
Korea North	380	20	20	450	0.00
Mongolia	0	167	26	122	369.23
Saudi Arabis	0	2,217	0	0	0.00
Other	0	130	4	222	0.00
HS Code: 010210, 010290					
Source: GTA China Statistics					

China Beef and Veal Exports, 2005-2007 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan-Jul		Jan-Jul
	Quantity	Quantity	Quantity Comparison		% Change
Destination	2005	2006	2006	2007	2007/06
World	54,586	60,849	30,739	35,767	16.36
Hong Kong	14,862	15,051	8,096	9,349	15.48
Korea South	12,139	14,080	7,346	7,322	-0.33
Japan	14,747	10,439	5,044	3,899	-22.70
Jordan	4,558	4,558	4,136	3,493	-15.55
Kuwait	2,606	3,668	1,805	2,405	33.24
Malaysia	1,186	2,371	1,291	1,382	7.05
Lebanon	571	2,269	744	979	31.59
Indonesia	1,345	1,502	703	891	26.74
Korea North	1,142	1,602	487	888	82.34
United Arab Emirates	270	169	0	417	0.00
Macau	193	297	162	194	19.75
Singapore	154	88	53	134	152.83
Russia	219	73	64	79	23.44
Other	594	4,682	808	4,335	436.51
HS Code: 020110, 020120, 020130, 020210, 020220, 020230, 021020 and 160250					
Source: GTA China Statistics					

CHINA WHOLESALE BEEF PRICES ON AVERAGE 2004-2007, (US\$/KG)

	2004	2005	2006	2007	% Change 2007/06
January	1.84	1.81	2.10	1.99	-5.24
February	1.79	1.98	2.08	2.23	7.21
March	1.82	1.93	1.94	2.09	7.73
April	1.79	1.88	2.06	2.10	1.94
May	1.86	1.99	2.01	2.06	2.49
June	1.84	1.96	2.00	2.21	10.50
July	1.83	1.92	1.99	2.34	17.59
August	1.83	1.98	2.11	2.46	16.59
September	1.77	1.88	2.12		
October	1.83	1.96	1.99		
November	1.80	1.92	2.00		
December	1.78	2.04	2.03		

Source: The Ministry of Agriculture

Swine and Pork

Pork Production Down but to Recover

Post forecasts China's pork production in 2008 to increase by two percent to 48 MMT despite a lower slaughter rate. PRRS will cut into backyard production but China's increasingly commercialized production is expected to see increasing carcass weight. FAS Beijing forecasts China's total beginning swine stocks in 2008 to fall by five percent to 469.8 million head because of PRRS. Additionally, Post forecasts China's 2008 sow stocks and production to increase by 2 and 3 percent to 47.5 million and 649 million head respectively. This recovery will come as a result of China's new production and insurance subsidy for sows beginning in August 2007—with positive results likely in the latter half of 2008 -- one and a half years are needed from breeding female piglet recovery to commercial swine slaughter. In 2008, post projects a continued decrease in slaughter to 644.1 million head on top of the estimated five percent decrease in 2007 as a result of depleted beginning stocks.

Post revised China's 2007 sow beginning stocks and pig crop production down by five percent to 46.5 million head and 7 percent down to 630 million head respectively. Post revised China's 2007 pork production 10 percent down to 47 MMT to reflect an estimated five percent decrease in slaughter to 647 million head. Both the slaughter rate and carcass weight are likely to be lower than normal years because of PRRS. China's slow response to PRRS has resulted in significant losses to Chinese swine herds and pork production.

Swine and pork production are not expected to recover this year. Although China has developed a vaccine, its effectiveness is difficult to gauge. One problem is that the vaccines are difficult to use. They require refrigerator storage under a constant temperature at 2-8 degrees Celsius. They then must be taken out and kept at room temperature for 2-3 hours before usage. Most farmers do not have this kind of infrastructure in place. To make matters worse, inappropriate usage may cause sow miscarriage or other problems. Some have questioned whether the vaccine causes more problems than it solves – or whether it even works at all.

Recovery will also be slowed because high piglet prices have encouraged farmers to reduce herd size. Market uncertainty makes farmers more willing to place sows to obtain government subsidies, or send fattening swine at 50-60 kg to early too slaughter before the October holidays. Piglet placement may increase in October-November 2007 for slaughter before the calendar New Year in January and the traditional Spring Festival in February 2008.

Although pork's share in China's total meat production will gradually decrease, other meats cannot replace pork completely as China's largest traditional meat. Pork accounted for nearly 65 percent of China's total meat production in 2006.

High Prices

Short domestic pork supplies have pushed China's pork prices up strongly from January to July 2007 (please see below). This is the first time that swine and pork production and rising pork prices have attracted nationwide attention from senior officials. The importance of the issue encouraged the Central Government to subsidize RMB 6.5 billion (\$859.8 million) in swine production and disease control measures. China also decided to increase pork imports for state reserves in order to constrain high pork prices. This will encourage large pork imports in 2007. Imports in 2008 may continue to rise with an expectation of slow recovery in domestic pork production. The Summer Olympics are also expected to boost high quality pork consumption and imports in China.

The Impact of PRRS

PRRS is an infectious disease characterized by reproductive disorders, premature delivery, miscarriage, and stillbirth -- as well as abnormal breathing in piglets. The series of outbreaks began in May 2006 in Jiangxi Province, one of China's largest swine producing provinces, and then quickly spread to many other provinces. The Blue Ear Disease was not identified as PRRS until February, 2007. MOA claimed that from January 1 to August 19, 2007, PRRS occurred in 26 out of 31 provinces at 826 locations with 257,000 cases, 68,000 mortalities and 175,000 culling. Once infected, the death rate is 100 and 56 percent respectively for piglets and 80-day fattening swine, while sow miscarriage is about 30 percent. Backyard swine suffered heavily because of low quality feed, weak bio-security measures, poor veterinary support and untrained employees. FAS Beijing believes real losses have been under reported.

PRRS has also changed feed use in 2007. The China Feed Industry Association forecasts China's total feed production at 47.8 MMT from January to June 2007, up 3.7 percent from the same period in 2006. Compound feed was 35 MMT (up 5.5 percent), concentrated feed was 10.7 MMT (down 1.7 percent), and additive pre-mixed feed was 2.1 MMT (up 3.6 percent) respectively. Swine feed decreased by 14 percent to 15 MMT due to falling swine stocks, while egg layer feed, boiler feed and ruminant feed increased by 5.1 percent to 9.8 MMT, 22.4 percent to 14.8 MMT and 10.4 percent to 2.2 MMT respectively. Swine feed share in China's total feed production fell from 36 to 31 percent, also pointing to major swine losses. Remaining swine producers are moving to compound feed. One of the major drivers is that the fattening period can be shortened by for 15 days. In addition, compound feed reduces contamination compared to using farmers' self-made formulations. Since corn accounts for 60-70 percent of swine feed, more use of industry feed could increase corn demand unless it is priced out of the market because of rising ethanol production and other demand.

Long-Term Factors & Production

FAS Beijing believes PRRS will have a short-term impact on China's swine and pork production. Once it is under control, the production can probably recover quickly. However, the long-term future of the sector is more problematic. Many farmers are giving up raising swine because of increasing costs. Although there is still cheap labor in countryside that helps small-scale production with low cash outlays, higher wage jobs are available in large metropolitan areas. Disease is also a persistent problem. Outbreaks of swine *streptococcosis*, high swine fever, and PRRS in 2005-2007 have hit backyard or small-scale farms frequently. In addition to these costs, producers face other issues such as high energy costs, limited water supplies, and stricter environmental requirements. Although the swine and grain conversion ratio has been above the profit and loss critical point (1:5.5) during the last eight months, profit margins are shrinking. As a result of these changes, the remaining small-scale swine producers are becoming consolidated into commercial entities.

New Policies & Production

State Pork Reserves: On August 13, 2007, the Ministry of Commerce (MOFCOM) and the Ministry of Finance (MOF) jointly announced the Measure on State Meat Reserve Management (Memo #9) effective on September 15, 2007. This is the first time China has regulated state meat reserves so actively in recent years. In the future, they will be used to curb abnormally high meat prices, natural disasters, accidents, sudden public health crises or other major events. Most reserves are counted in units of live animals converted to weight. For example, 20 head of swine, six head of cattle, and 60 head sheep and goats are counted as one MT of pork, beef and sheep and goat meat respectively. Live reserves require each swine over 60 kg, cattle over 400 kg, and sheep and goats over 20 kg. Both live swine and frozen pork reserves are replenished every 4 months, while frozen beef, and sheep and goat meat reserves are replenished every 8 months. Actually, state reserves started in 1979 mainly for frozen pork. As living standards rise, consumers prefer fresh meats. Frozen reserves have been gradually replaced by live animal reserves. In the past, central frozen reserves were about 150,000 MT a year. The quantity has been reduced to 60,000 MT per year since 2004. Provincial meat reserves will be established according to local conditions. This will no doubt help constrain meat prices in the future. Large pork imports are expected to continue in 2007 and 2008 due to insufficient domestic substitutes, but for the long run China is not expected to import large quantities for state reserves.

Animal Disease Quarantine Law: On August 30, 2007, China announced its new "Animal Quarantine Law" effective on January 1, 2008. The new law stresses animal disease monitoring, risk assessment, and reporting. It requires the government to pay for any losses due to compulsory vaccines, culling or destroying of animals or animal products for disease control. This will make farmers more willing to destroy sick animals instead of selling them quickly to avoid economic losses, thus encouraging animal disease control.

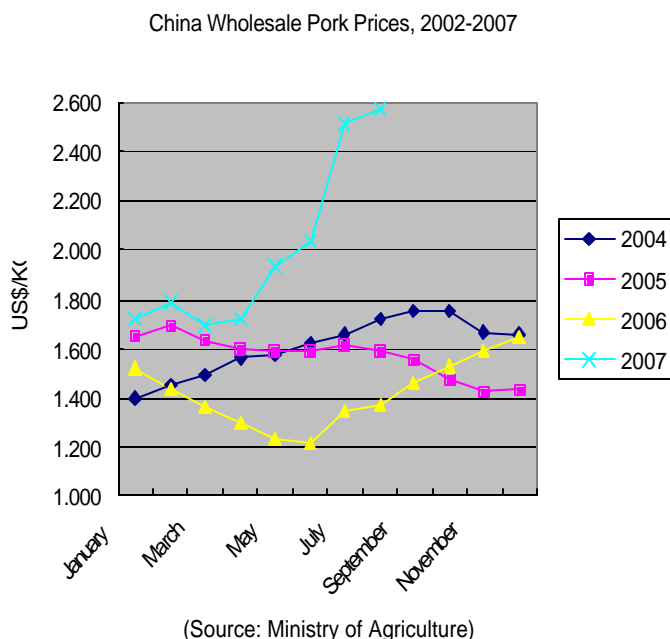
Cash Subsidy and Insurance Subsidies for Sows: This policy was announced by the MOF in June 2007. The total subsidy in 2007 is RMB6.5 billion (\$886.7 million) from the central and local governments with the central government investing RMB 38 million (\$506.7 million). Farmers will get RMB50 (\$6.7) cash subsidy for each producing sow per year. The insurance fee for each producing sow's is RMB 60 (\$6.7) for an insurance value at RMB 1,000 (\$133). Farmers only pay RMB12 (\$1.6) and the government pays the remainder. The policy will likely see positive results in 2008 and beyond. However, most farmers think a \$6.70 cash subsidy is not enough for one producing sow per year. Also, the insurance procedure is very complicated while piglets and fattening swine are excluded.

The MOF announced on September 17, 2007 that the Central Government will allocate RMB 1.5 billion (\$200 million) this year to award 253 large counties selling fattened pigs to other places in China. The award will be allocated 50 percent to selling, 25 percent to slaughter, and 25 percent to inventory sectors respectively. It is too early to say how this policy will work because \$200 million is small for 253 counties, and it is not clear whether farmers can sell swine in other markets.

High Pork Prices & Inflation

A significant change from Post's last semi-annual livestock report (CH7014) is the sharp pork price increases resulting from PRRS. The average pork price increased by 48 percent from January to August 2007 over the same period in 2006, while prices in July and August increased by 86 and 87 percent respectively from the months in 2006. Short pork supplies also came from a decreased swine inventory created by low prices in 2005-6. From Oct 2005-Sep 2006, average wholesale hog prices fell by 23 percent because of oversupply while the average wholesale corn price rose by 22 percent. As a result, many farmers slaughtered

sows to minimize losses. With herds cut already, the sudden PRRS outbreaks further reduced hog production, thus pushing pork prices steeply higher.



High pork prices have pushed up overall inflation. NSB data shows the Chinese consumer price index (CPI) was up by 3.2 percent on average from January to June 2007 over the same period in 2006. The CPI rose by 4.4 and 6.5 percent in July and August from the same months in 2006. The average food prices in the first half of 2007 increased by 7.6 percent. Increased pork prices contributed 30 percent of the total food price increase.

High pork prices have encouraged Chinese consumers shift to poultry and other meats that cost less. However, the availability of other meats can only partially offset demand. Pork prices may fluctuate at high levels into the first half of 2008 because of tight supplies, helping to drive imports in 2007 and 2008.

Recovering Pork Consumption

While high pork prices have not heavily impacted high-income consumers, price-sensitive middle and low-income consumers have either reduced pork consumption or shifted to other meats. However, this shifting will be limited because increased consumption of substitute meats already has pushed other meat prices up -- narrowing the gap between pork and other meat prices.

The substitution is also limited because the Chinese consumer still prefers pork when prices for other meats are close. In addition, many low-income consumers and school students are subsidized by the government as a new policy. On August 27, 2007 AQSIQ announced the Regulation on Food Recall Management (Memo #98), which is the first Chinese regulation to recall unqualified food products. This would no doubt give Chinese consumers confidence in meat consumption. Population increase, urbanization and constant labor moving from rural to urban areas, combined with strong economic growth (GDP growth forecast at 11 percent in 2007), will translate into sustained commercial pork demand.

Poultry meat is the most popular substitute for pork in China because it is also a traditional meat that can be cooked in many ways and consumed all the year round. However, broiler chest meat cannot substitute pork because it is considered tasteless. Beef, sheep and goat meat are normally consumed in cold weather for hot pot or consumed outdoors. Although sheep and goat meat production has been increasing fast (4.7 MMT), they only account for 6 percent of China's total meat production (81.5 MMT) in 2006 -- not enough to be close substitutes for pork. Also, about 94 percent of the Chinese population is Han Chinese, many of whom do not prefer the taste and smell of sheep and goat meat. Although beef is slowly winning market share, production already lags demand, resulting in high prices.

Muscle pork meat is popular in most provinces in China. The Chinese also like to eat meat with bones such as pork feet, legs and ribs. Women often prefer pork feet because they believe consuming pork feet improves their complexion. Pork offal or by-products, such as tongues, livers, and ears are popular for cold dishes, while kidneys and tripe are popular for deep fried dishes or soup. Pork offal cannot be substituted by beef offal except bovine stomach for hot pot. This will translate into large pork offal imports in 2007 and 2008. The United States could benefit as the second largest supplier to China.

Rapidly Increasing Pork Imports

FAS Beijing now calculates China's pork imports by using reporting countries export statistics because China's pork imports are likely under reported. According to traders, high domestic and international pork prices are driving grey trade through South China from overseas or Southeast Asia.

Tight domestic supplies, combined with strong demand and China's currency appreciation (7.5 percent over the last year), will drive China's pork imports in both 2007 and 2008. China's pork imports from January to July 2007 increased by 73 percent to 62,991 MT valued at \$72.4 million. The United States is the largest supplier to China. Its exports to China during January-July 2007 via direct shipments increased by 74 percent to 29,821 MT valued at \$36.9 million over the same period in 2006. China's pork imports in 2008 are likely to increase by 15 percent to 150,000 MT, a lower percentage increase from 2007 because of an expected recovery in domestic pork and other meat production.

China Plant Delistings & Zero Tolerance

U.S. exports are challenged by China's ban on ractopamine usage in feed and a zero tolerance of epidemic pathogens on meats. Ractopamine is a beta agonist to produce lean pork that has been approved in the United States and has been recommended for approval in the Codex Alimentarius, the international standards body governing these kinds of substances. Despite the developing international consensus on the issue, China has not approved ractopamine.

If ractopamine or epidemic pathogens are detected on pork for the first time, China will notify the U.S. side while giving the affected plants 45 days to correct the problem. If the same problems are detected again in the future or during the 45-day corrective period on pork from the same plants, China will delist the plants for eligible exports to China. Traders report that CIQs (quarantine offices) at entry ports sample and test every container from the United States. The ractopamine ban for feed and zero tolerance raise concerns since these standards are not based on sound science.

The Ministry of Agriculture (MOA) regulates ractopamine standards, while the Ministry of Health (MOH) regulates zero tolerance standards on meat pathogens. Final revision of standards are approved by the China Administration of Standardization (SAC).

Although USDA, USTR, FDA, and FAS Beijing are working to resolve the issues, it is unclear whether China would change its standards. As a result, ractopamine and zero tolerance on meat pathogens may cause continued trade disruptions and further open the market to competitors. The EU will continue to edge into the U.S. market share in 2008 since China resumed pork imports in July from some EU countries that were shut off due to dioxin problems a couple of years ago.

Importers must also apply for a meat quarantine import permit (MQIP) to cover that contract amount. The importer must supply documentation regarding the volume of the shipment to AQSIQ with the MQIP application. The restrictions often tie importers to one supplier or one country, imposing costs of around RMB 150-450/MT (\$20-60/MT).

Rising Exports

China's live swine exports almost entirely go to Hong Kong and Macau. The trade occurs under an export quota allocated by MOFCOM at the beginning of each year. The quota is more or less the same each year. The policy will remain in place during 2008.

The forecast two percent recovery in Chinese pork exports is far below levels prior to PRRS. China was the world's 10th largest exporter in 2006, exporting about 400,000 MT mainly to Hong Kong, Japan, and North Korea. China is not big player in the export market. Exports account for only one percent of China's total pork production. Some processing plants are not interested in exports because domestic demand and prices are good. Exports are also more difficult as AQSIQ has apparently stricter inspection and quarantine requirements for exports than domestically produced products. All exported food products should be inspected and marked "QS" (quality safety) by AQSIQ before shipments.

China will continue focusing on prepared pork exports due to food safety related restrictions by other countries for animal disease outbreaks in China. However, its fresh and chilled pork exports to Hong Kong increased rapidly in 2007 and will likely continue growing in 2008. Despite the domestic shortage in swine and pork supplies, China tries to guarantee hog and pork supplies to Hong Kong with limited profit margins for policy purposes. Vietnam has become China's 4th largest market in 2006 from almost nothing before that. After China signed the Free Trade Agreement with Southeast Asian countries, convenient land transportation links between China and Vietnam have supported trade. On the other hand, China's pork exports to Russia fell nearly 91 percent compared to shipments in 2002-2004 partly due to Russia implementation of import meat quota system and partly due to outbreaks of swine disease in China.

Swine and Pork PS&D Tables

PSD Table

Country

China, Peoples
Republic of
Animal Numbers,
Swine

(1000 HEAD)(PERCENT)

	2006 USDA Official	Revised Post Estimate	Post Estimate New	2007 USDA Official	Estimate Post Estimate	Post Estimate New	2008 USDA Official	Forecast Post Estimate	Post Estimate New
Market Year Begin		01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Total Beginning Stocks	503348	503348	503348	523752	523752	494407	530863	530863	469758
Sow Beginning Stocks	48930	48930	48930	48000	48000	46500	0	0	47500
Production (Pig Crop)	735000	735000	680000	750000	750000	630000	0	0	649000
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	2	2	2	2	2	1	0	0	2
Total Imports	2	2	2	2	2	1	0	0	2
Total Supply	1238350	1238350	1183350	1273754	1273754	1124408	530863	530863	1118760
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	1723	1723	1723	1690	1690	1650	0	0	1700
Total Exports	1723	1723	1723	1690	1690	1650	0	0	1700
Sow Slaughter	0	0	0	0	0	0	0	0	0
Other Slaughter	711375	711375	680504	740201	740201	647000	0	0	644100
Total Slaughter	711375	711375	680504	740201	740201	647000	0	0	644100
Loss	1500	1500	6716	1000	1000	6000	0	0	2500
Ending Inventories	523752	523752	494407	530863	530863	469758	0	0	470460
Total Distribution	1238350	1238350	1183350	1273754	1273754	1124408	0	0	1118760
CY Imp. from U.S.	1	1	1	0	0	0	0	0	1
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	-530863	-530863	0
Inventory Balance	20404	20404	-8941	7111	7111	-24649	-530863	-530863	702
Inventory Change	4	4	4	1	4	-2	1	1	-5
Sow Change	9	9	9	-2	-2	-5	-100	-100	2
Production Change	7	7	7	2	2	-7	-100	-100	3
Production to Sows	15	15	13.9	15.6	15.6	13.5	0	0	13.7
Trade Balance	1721	1721	1721	1688	1688	1649	0	0	1698
Slaughter to Inventory	141	141	135	141	141	131	0	0	137

(Not Official USDA Data)

PSD Table

Country

China, Peoples
Republic of

Commodity

Meat,
Swine(1000 HEAD)(1000 MT
CWE)(PERCENT)

	2006	Revised		2007	Estimate		2008	Forecast	
	USDA	Post	Post	USDA	Post	Post	USDA	Post	Post
	Official	Estimate	Estimate	Official	Estimate	Estimate	Official	Estimate	Estimate
			New			New			New
Market Year Begin		01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Slaughter (Reference)	711375	711375	680504	740201	740201	647000	0	0	644100
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	52261	52261	51972	54352	54352	47000	0	0	48000
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	91	53	90	86	55	130	0	0	150
Total Imports	91	53	90	86	55	130	0	0	150
Total Supply	52352	52314	52062	54438	54407	47130	0	0	48150
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	543	543	595	560	560	440	0	0	450
Total Exports	543	543	595	560	560	440	0	0	450
Human Dom.	51809	51771	51467	53878	53847	46690	0	0	47700
Consumption									
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom.	51809	51771	51467	53878	53847	46690	0	0	47700
Consumption									
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	52352	52314	52062	54438	54407	47130	0	0	48150
CY Imp. from U.S.	43	43	43	44	44	30	0	0	30
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0	0	0
Inventory Balance	0	0	0	0	0	0	0	0	0
Weights	73	73	76	73	73	73	0	0	75
Production Change	4	4	4	-3	4	-10	-100	-100	2
Import Change	-8	10	-8	153	4	44	-100	-100	15
Export Change	8	8	8	10	3	-26	-100	-100	2
Trade Balance	452	490	505	474	505	310	0	0	300
Consumption Change	4	4	4	-3	4	-9	-100	-100	2

(Not Official USDA Data)

Swine and Pork Trade Matrix

China Swine Imports, 2005-2007 (Number of Head)					
	Jan-Dec	Jan-Dec	Jan-Jun		Jan-Jun
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2005	2006	2006	2007	2007/06
World	3,238	2,489	1,383	622	-55.03
United States	1,892	1,038	1,038	194	-81.31
Denmark	0	682	160	0	-100.00
Canada	1,032	503	185	336	81.62
United Kingdom	0	266	0	92	0.00
France	314	0	0	0	0.00
Other	0	0	0	0	0.00
HS Code: 010310, 010391, 010392					
Source: GTA China Statistics					

China Pork Imports By Reporting Countries Exporting Statistics, 2005-2007 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan-Jul		Jan-Jul
	Quantity	Quantity	Quantity Comparison		% Change
Reporting Country	2005	2006	2006	2007	2007/06
Reporting Total	67,726	69,448	36,464	64,520	76.94
United States	37,343	31,866	17,176	29,821	73.62
Hong Kong	6,028	17,136	7,505	23,529	213.51
Canada	13,880	15,870	9,209	9,608	4.33
France	2,627	2,021	1,244	1,529	22.91
Denmark	2,789	629	128	0	-100.00
Belgium	380	669	404	0	-100.00
Other	4,679	1,257	798	33	-95.86
HS Code: 020311, 020312, 020319, 020321, 020322, 020329, 021011 021012, 021019, 160241, 160242 and 160249 ,					
Source: GTA reporting countries export statistics					

China Swine Exports, 2005-2007 (Number of Head)					
	Jan-Dec	Jan-Dec	Jan-Jul		Jan-Jul
	Quantity	Quantity	Quantity Comparison		% Change
Destination	2005	2006	20 06	2007	? ? -07
World	1,768,772	1,722,540	969,751	928,988	-4.2
Hong Kong	1,646,605	1,602,222	900,196	860,304	-4.43
Macau	120,869	117,382	68,795	68,136	-0.96
Korea North	1,198	2,294	594	315	0
Other	100	642	166	233	40.36
HS Code: 010310, 010391, 010392					
Source: GTA China Customs Statistics					

China Pork Exports, 2005-2007 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan-Jul		Jan-Jul
	Quantity	Quantity	Quantity Comparison		% Change
Destination	2005	2006	2006	2007	2007/06
World	385,967	418,788	236,599	179,226	-24.25
Hong Kong	114,375	129,965	73,703	71,344	-3.20
Japan	68,714	79,133	41,798	43,492	4.05
Korea North	61,609	75,364	39,703	16,518	-58.40
Philippines	9,354	13,571	6,439	6,977	8.36
Vietnam	874	29,322	19,654	6,074	-69.10
Singapore	16,327	12,748	8,690	5,499	-36.72
Malaysia	12,249	11,258	5,314	5,390	1.43
Albania	6,224	6,783	3,644	5,158	41.55
Kyrgyzstan	1,023	15,522	3,644	5,158	41.55
Macau	5,411	6,242	3,438	3,615	5.15
Kazakhstan	7,686	5,420	4,480	2,282	-49.06
Indonesia	3,038	3,032	1,969	1,225	-37.79
Russia	43,275	6,984	6,596	821	-87.55
Moldova	13,512	2,041	1,164	294	-74.74
Korea South	6,715	8,006	6,592	235	-96.44
Angola	150	2,341	823	227	-72.42
Georgia	1,446	2,195	619	78	-87.40
Ukraine	5,245	630	630	0	-100.00
Other	8,740	8,231	7,699	4,839	-37.15
HS Code: 020311, 020312, 020319, 020321, 020322, 020329, 021011 021012, 021019,					
160241, 160242 and 160249					
Source: GTA China Statistics					

Other Relevant Reports

GAIN – FAS/USDA

[CH7014 – Livestock Semi-Annual Report](#)

[CH7025- China Proposes to Ease Certification Requirements for Cosmetics Imports](#)

[CH7043 - AQSIQ Quarantine Import Permit Changes](#)

[CH7044 - The Story Behind China's Rising Pork Prices](#)

[CH7059 - China to attach inspection and quarantine labels for food exports](#)

[CH7066 – FAIRS Country Report - China](#)

[CH7070 - Food Recall Regulation](#)